Minutes*

Faculty Consultative Committee
Thursday, April 3, 2003
12:15 – 3:00
238A Morrill Hall

Present: Dan Feeney (chair), Gary Balas, Susan Brorson, Tom Clayton, Arthur Erdman, John Fossum, Marti Hope Gonzales, Mary Jo Kane, Candace Kruttschnitt, Judith Martin, Fred Morrison, Jeff Ratliff-Crain, Martin Sampson, Charles Speaks

Absent: Muriel Bebeau, Gary Davis, Marc Jenkins, Marvin Marshak

Guests: President Robert Bruininks, Provost Christine Maziar

Other: Katie Stuckert (Office of the Vice President and Chief of Staff)

[In these minutes: FCC election results; (1) possible changes to health care benefits; (2) discussion with the President and the Executive Vice President and Provost]

[Note: In the FCC elections, Professors Jean Bauer and Dan Feeney were elected for three-year terms 2003-2006]

1. Health Care Benefits

Professor Feeney convened the meeting at 12:15 and turned to Professor Morrison, noting that the Committee should provide advice to the Benefits Advisory Committee (which Professor Morrison chairs) about possible changes in health care benefits.

Professor Morrison observed that Committee members are aware of the University's budget problems. A significant part of the problem arises because of increases in health care costs, which has led the administration to want to address the problem. Professor Morrison reviewed some of the data:

-- The University's contributions to these costs are expected to rise from $97.2 million to $129 million in 2005 at the same time revenues are shrinking. The response will likely include cost reductions, including cost-sharing with employees.

-- In terms of benchmarks, the University pays a higher percentage of the premium for employees than do comparison groups (the Big Ten, the Twin Cities public agencies, and many other universities), although employee cost for single coverage, lowest-cost option, is zero at the University as well as the State of Minnesota and Hennepin County.

* These minutes reflect discussion and debate at a meeting of a committee of the University of Minnesota Senate or Twin Cities Campus Assembly; none of the comments, conclusions, or actions reported in these minutes represents the views of, nor are they binding on, the Senate or Assembly, the Administration, or the Board of Regents.

-- In one plan being considered, the University's costs 2003-2005 would increase from $97.2 million to $108 million and would go from 89.1% of the premium cost to 77.3%. Employee costs would increase correspondingly from 10.9% of the total to 22.7%.

Professor Morrison then reviewed proposed changes to the U Plan. They include such items as doubling the co-pays, removing University of Minnesota Physicians from HealthPartners, increasing the prescription co-pays, and so on. The largest cost-saving for the University, however, is changing the University's contribution to the base plan premiums: for employee-only coverage, instead of 100% coverage the University would pay 90%; for family coverage, the University would pay 85% rather than 90%. The total savings from all changes are about $17.8 million, of which $11.9 comes from increased employee contributions to premium charges. This change is also potentially the most controversial, Professor Morrison noted.

There would also be corresponding changes to dental insurance coverage along similar lines, saving about $2 million.

The Benefits Advisory Committee will look at the options and consider ways to mitigate the impact in lower-paid employees. Professor Morrison affirmed that the contributions to pay for health insurance premiums are pre-tax funds (except for the approximately 7 people in the University who insist on paying the premiums with post-tax income). There could be a change in the limit on the amount of money in the flexible spending accounts for health care costs, Professor Morrison said, to accommodate the increased employee costs.

Professor Speaks said he had two concerns. The total of $19-20 million to be saved in health and dental benefits is real money, but based on information he received at the Provost's Budget Advisory Task Force, it appears that of the entire budget problem, about 87% of it will be addressed through some form of across-the-board cuts (which include tuition increases, these changes in employee health care plans) or accounting shifts. That leaves only 13% to be handled by to-be-determined reductions in academic and support units. Given that the Provost and the President have both said that only part of the base reductions that would be across the board was the $25 million cut in January, and tuition increases, he said he found it disturbing that now only 13% of the reductions will be targeted.

The second troublesome issue, Professor Speaks said, is that the Committee has been given the opportunity now to comment on possible changes to the health care plans but on little else. The Budget Advisory Task Force keeps no minutes and all discussions are confidential; the informal committee of four representatives from this Committee and four from Finance and Planning has never met. Events are moving very fast, and while he said he understands the sensitive nature of the issues, it has become more and more prevalent for the administration to describe something as a sensitive issue that cannot be discussed publicly. The result is that the there is great reliance on kitchen cabinet conversations.

Balancing $19-20 million on faculty and staff is what the legislature wants, Professor Balas said. The Provost seems to be on the same mission, of having the University pay less. He said he was bothered by the direction the University was taking.

Who generated these recommendations, what status do they have, and when are comments expected, Professor Erdman asked? Professor Morrison said the proposals were generated by the administration, presented by Senior Vice President Cerra, and developed by an administrative working group. The Benefits Advisory Committee (BAC) will look at the proposals from two perspectives: Should the University adopt them, and if so, is this the right approach? The administration has asked for responses by April 18 so the BAC will meet twice in the next two weeks to develop a response.

One big concern, Professor Morrison said, is how to deal with low-income individuals. There are 17,000 employees at the University and roughly $17 million in medical costs to be saved, or about $1000 per employee. For those who make high salaries, the $1000 increase in cost is acceptable; it is not acceptable for those who make $24,000-30,000 per year, especially since the premium increases would occur in a year when there will likely be no salary increases. One possibility might be to push the increases into the second year of the biennium, or to create off-setting funds for low-income employees.

People have been anticipating something like this, Professor Ratliff-Crain said, and see it as a net cut in pay. Like the salary increases that included a mandate to reward most generously the top 20%, this will hurt morale among 80% or more of the employees, he predicted.

Professor Speaks said he was also troubled that after years and years, the administration acknowledges that faculty salaries at the University are quite low in comparison to the top 30 research universities. Little has been done to change that ranking. The one thing that has helped to offset the low salaries has been a good benefits package; it has been a strong recruiting tool. If the faculty must give up that benefits package, it must give it up--but the University should NOT be apologizing to the Governor, the legislature, and the business community about its benefits package. What it should be saying is that it wants to be among the top research universities in the country but it cannot afford to pay the salaries necessary to achieve that status, so a good benefits package has helped compensate for the lower salaries. He said he was disillusioned about the way the University was approaching this issue.

Is the University under pressure because of the benchmarks, Professor Feeney asked, or does it anticipate pressure? The benchmarks were developed after the Governor's budget proposal was presented, Professor Morrison said, and then the University's trend increases were identified (the University squeezed money out of health plans this year, to the benefit of the University, but that was a one-time event so it now faces the same increases as do others). The budget is constrained and the administration says the University must save money, so it looked at other plans. Now that the Taxpayer's League is on the bandwagon, there is a bill in the legislature to prohibit any public entity from paying more than 80% of the premium costs for family health care coverage. The University has said it is dealing with the issue. What it does not deal with is the problem that its salaries are about 4% below market. While its fringes are above market, the University will lose that advantage. If the changes are made, the University will go from 28th to 28th in SALARIES among top 30 research universities and from 20th to 28th in total COMPENSATION among top 30 research universities.

How many of the University's 17,000 employees make less than $40,000, Professor Speaks asked? About 40%, Professor Morrison said. So if a secretary makes $25,000, he or she could lose $1000 under this proposal, Professor Sampson asked? (Yes, if he or she has family coverage.) He said he has the impression that a number of people work at the University even though their salaries are below-market because they like the University and its benefits. What will it cost the University to send the message that it will reduce benefits and pay below-market salaries? Will this trigger an increase in University support system costs that it does not now have to pay for?

Professor Morrison said it would but there is a qualification: At the lowest wage levels, the University pays salaries that are higher than the market rates for those skills. The $12-per-hour rule raised University wages above the market and made the University the employer of choice while increasing costs. At the secretary level there was not much change and the current salaries, $28,000-30,000, may not be competitive. What is the option? The secretary takes another job, the department does not replace the individual, "and you do your own typing," he said. Professor Sampson said this would be a reduction in a staff that is already barebones.

How does this change position the University vis-à-vis the private sector, Professor Sampson asked? Is it one step or is it the start of a slippery slope, with more pressure to make additional changes in the fringe benefits later? Professor Morrison said the changes would put the University in line with where the public sector is now: better than average. The private sector is MUCH less generous in providing family coverage, an issue that the University will likely face again in the future.

Professor Balas said his problem with this is that the administration is facing the issue one biennium at a time rather than looking at what the University will be in ten years. With these kinds of changes the University is getting pushed around and does not know where it is going.

Has there been concern about the imposition of a lifetime maximum on coverage, Professor Feeney asked Professor Morrison? At present there is no lifetime maximum, Professor Morrison said, except with Definity, which has a cap of $2 million. No one at the University is anywhere near that cap. He said he was originally opposed to a lifetime maximum but he is less so if the number is relatively high and is indexed. The BAC has not discussed the lifetime maximum but it may need to do so in the future.

Is there any way to set employee contributions as a percent of salary, Professor Ratliff-Crain asked? Professor Morrison said he has thought about that and asked the administration to look into it. One possibility would be a percent-of-income cap, which would cover those individuals whose salaries are below $40,000. The University needs to build structures that are not Band-Aids, he said, and must accommodate increased plan costs in the future. The impact of this plan must be softened, Professor Ratliff-Crain maintained; it seems to be the easy way out unless the University were to adopt a pay cut. In early responses to the proposed changes, Professor Morrison, some people suggested the changes should not be made but that a pay cut should be, which tells the legislature that it is cutting the University's competitiveness. That would be one way to go, he concluded.

The departments have already cut deeply, Professor Erdman said, and there is no fat there. If the University adds $1000 per person in expenses for employees, his feeling is that the faculty in his department would rather absorb the cost in order to keep the valuable staff cushioned from such a high percentage impact. There is a finite minimum infrastructure the department needs and there needs to be thought about the infrastructure/substructure needed for teaching and research to occur. He said he would not be at all in favor cutting benefits for lower paid individuals at the University.

Professor Erdman also noted there are two weeks to respond to the administration. What changes can happen? Could employees take a pay cut? Or are these medical benefits numbers a done deal? Professor Morrison said the Committee would have to ask the President the latter question. The BAC can address some issues, such has treatment of lower-paid employees. Professor Erdman said he believed there would be strong support for protecting the low-income portion of the University community.

Professor Speaks agreed that low-income employees should be protected--and he urged, that if these cost increases are to be passed to employees, that the decision not be implemented until 2004-05, when there might be salary increases to help offset the increases. This can be done, he said, because other budget plans include using non-recurring balances to deal with parts of the problem. The increases could be shifted to the second year, Professor Morrison said, but the numbers would then be a little larger. They are also exploring the possibility of different premium levels during the first and second halves of the first year.

Professor Balas said he would like the administration to have plans, not just take some money next year and leave employee benefits as a place that the University can keep coming for more money. He said he would support this plan because it would be fixed and the administration would not be returning next year to propose further cuts.

Professor Feeney asked about the buffering effect of the fringe benefit pool, which means that high-income individuals and departments subsidize low-income units. Professor Morrison explained how the fringe benefit pool works and agreed that high-salaried units subsidize low-salaried units. He said he has not talked about this because there are few in the University who understand it (and he is not one of those, he added). Professor Martin said that this point needs to be underlined: funds are already being shared in ways that benefit others. There has been talk about a direct charge system, Professor Feeney said; to adopt it would have a dire effect on low-income employees. But it hides real costs of some things, Professor Balas responded, so the University does not know the real costs of certain employee groups. There is a disconnect between what one pays for services and benefits and the amount available to share.

It was agreed that the Committee wished to receive a report from the Committee on Finance and Planning about a direct charge fringe benefit system.

Professor Sampson said that one should ask a question about the leadership role of the University in providing health benefits (which in 2003, and almost certainly in 2004, are less than what one would receive in any European university). Should the University dig in its heels? Is this only the beginning? Does the deterioration of basic services in the University mean it risks losing people? One can argue the other side, Professor Morrison responded: For every $1 million not taken out of health care, the University must fire 17 people. This prompted Professor Balas to again contend that there is need for a long-term plan so that some areas shrink. Is the Committee prepared to press the President on this, Professor Morrison asked? To tell him he MUST close something--this college or department, give one-year notice, then the P&A staff will be gone, the civil service and bargaining unit staff will be gone, and faculty reassigned?

Professor Speaks said he has heard both the President and Senior Vice President Cerra talk about losing people. On the other hand, it appears that the University of Wisconsin at Madison is being more bold in that it is cutting programs and employees. Until this University and central administration are willing to consider closures and to stop doing things, Professor Speaks said he would not endorse any plan or any component of any plan that includes across-the-board cuts.

Professor Feeney said he would send a questionnaire to Committee members about what they are willing to give up if the University were to cut programs. Would they take the position if the cut were made to their department? Would people think differently if it were their college that were cut? He said he had heard a lot about low-paid employees; a lot of people have given their life to the University in areas where opportunities for other employment outside the institution are limited. The President and the Provost are trying to be humane, he said; if the Committee does not accept that position, and tells them to cut funding, some who have skills with limited applicability outside an academic institution will be cut. This should be part of an intellectual future discussion, and if people think the University should be reshaped, they need to put their money where their mouth is.

With across-the-board cuts, some units will be unable to function, Professor Ratliff-Crain said. At a certain point the University may as well get rid of some unit because they will have been cut so much they cannot operate. Cutting across the board will have that result for some units, which will mean cutting without saying so or doing it in a planned way.

2. Discussion with President Bruininks

Professor Feeney welcomed the President (and, slightly later, the Provost) to the meeting. Scheduled as a discussion of the intellectual future of the University, the conversations instead focused almost exclusively on the budget and the possible impact on employee benefits. The Committee voted to close the discussion. A number of points were raised.

-- The direction of state support for the University seems to be clear (down) but there is no long-term plan for where the University is going (but the only place that five-year planning was perfected was in the Soviet Union).

-- The nature of the state's partnership with the University (and that it remains essential), implications of the land-grant role, and the need to continue to fight for state support.

-- The difficulty of making decisions without high transaction costs.

-- The need to take advantage of the fact that this is the only major research university in the state and linking faculty to research and to what happens in the classroom. This might include changing the direction of UROP so it becomes a recruiting tool for honors-quality students instead of a research program primarily for upper-division undergraduate students.

-- The need to integrate the University's missions and the importance of maintaining a balance of academic cultures (e.g., human genome research needs philosophy and ethics) and the need for the University to leverage its assets rather than compartmentalize its activities.

-- The possibility of the Committee co-sponsoring a conference on transforming the University's educational strategy, not taking ideas and making them a program or project, in ways that make a difference in the lives of students, and supporting a series of events similar to those the University sponsored during its sesquicentennial.

-- Whether or not there are or will be across-the-board rather than targeted cuts and the freedom of deans to cut where they want to when they receive instructions on cuts (cuts are to be made only after consultation with colleagues in the unit and with the Provost).

-- Whether improvements in undergraduate education in recent years will be sacrificed to budget cuts.

-- The need to eliminate a lot of non-standardized basic practices across the University, which are very expensive.

-- The need to increase private fund-raising so that it reaches the level of grant, tuition, and state support.

-- What it means to be a flagship institution (perhaps the metaphor should be flotilla or aircraft carrier?), combining great liberal arts elements with graduate and professional education, and how this is different from what is offered at other institutions in the state.

The University "cannot sit for two years and admire how difficult the problems are or the world will pass it by," the President commented as he left the meeting. Professor Feeney thanked the President and Provost for joining the discussion and adjourned the meeting at 3:00.

-- Gary Engstrand

University of Minnesota